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SUBJECT: C-AL8-01467 ANDEAN-EU TRADE DEAL STALLED

REF: STATE 84489

Classified By: Ambassador P. Michael McKinley, Reasons 1.4 b&d

SUMMARY

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¶1. (C/NF) Senior Peruvian Trade Ministry officials are pessimistic that the Andean Community of Nations (CAN) will reach agreement on its communication to the European Union (EU), due August 14-15, on the proposed mechanisms for continuing EU-CAN trade agreement discussions. The EU is only willing to proceed at different speeds with different CAN members if the CAN members jointly agree to such a mechanism. If the deadline lapses, Peru may formally approach the EU for a separate trade deal. An EU official in Peru explained that Bolivia has not accepted the minimum requirements for participating in the trade pillar of the agreement, but has not opted out of that pillar. He is hopeful, but not optimistic, that the CAN communication will clarify Bolivia's position.

¶2. (C/NF) In addition to the EU issue, the intellectual property rights provisions of Peru's (and Colombia's) trade agreement with the US are dividing the CAN. Bolivia maintains its refusal to allow Peru to go beyond CAN IPR norms, as required by the US trade agreements. This issue will again come to a vote during the August 13-14 CAN trade ministers meeting in Lima. Peru's contingency plan is to change its status from the CAN from "full member" to "associate member" (like Chile), which would allow continued participation in CAN dialogue and Peru's trade agenda to move forward. End Summary.

TRADE MINISTRY:  
CAN'S TRADE DEAL WITH THE EU GOING NOWHERE

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¶3. (C/NF) Econ Counselor discussed the stalled European Union (EU) - Andean Community of Nations (CAN) trade negotiations with Peru's Vice Minister of Trade Eduardo Ferreyros and two other key advisors to Trade & Tourism (MINCETUR) Minister Mercedes Araoz on August 6. The MINCETUR officials said that, per agreement with the EU, the CAN needs to submit a joint response to the EU by August 14-15, 2008 on a range of issues related to the negotiations. These issues include whether different CAN members would proceed at different speeds in the negotiations and which sectors would be included in tariff reductions. The MINCETUR officials said that the EU was firm in demanding the CAN reach agreement on these issues before continuing trade talks.

¶4. (C/NF) As noted in reftel, Peru and Colombia are eager to negotiate a meaningful trade agreement with the EU, but Bolivia and Ecuador are not seeking as comprehensive a deal.

The MINCETUR officials were pessimistic that the CAN would reach agreement on the way forward before the deadline. They said Peru and Colombia may write letters to the EU after the deadline passes, formally requesting to move forward without Bolivia and Ecuador.

#### EU: BOLIVIA SEEKING TO PARTICIPATE PARTIALLY

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15. (C/NF) On August 12, the head of the EU's Economic and Regional Cooperation Office in Peru told Poloff that the EU proposed to the CAN that individual Andean countries (e.g. Bolivia) could opt out of the trade pillar of the three-pillared Association Agreement. Henning said that when the Andean countries took up the discussion, the original proposal became muddled and different delegations left the meeting with a different idea of what the EU had proposed. Henning also clarified that the EU has offered limited flexibility to individual Andean countries within the trade pillar, but that no country that opts into the trade pillar can choose to opt out of a section of that pillar, such as services or IPR. Nor can that country ask for standards that fall below WTO requirements.

16. (C/NF) According to Henning, the ongoing problem is that Bolivia has neither opted out of the trade pillar nor accepted every aspect of that pillar -- including the minimum WTO standards -- leaving the entire negotiation in limbo. Henning believes that the Morales administration does not want a trade agreement for ideological reasons, but also does not want to opt out. Henning said the EU hopes, but is not optimistic, that the CAN report this week will resolve Bolivia's stance.

#### BOLIVIA STILL OPPOSES PERU'S PTPA IMPLEMENTATION

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17. (C/NF) Perhaps a greater irritant to Peru and MINCETUR is Bolivia's refusal to allow flexibility of the CAN's intellectual property rights (IPR) regime to allow Peru (and Colombia, if the US-Colombia trade agreement advances) to meet its US-Peru Trade Promotion Agreement (PTPA) commitments. The MINCETUR officials said that Bolivia has repeatedly blocked Peru's request for permission to strengthen its IPR regime. Ecuador has agreed not to vote "no." This issue is expected to again come to a vote during the August 13-14 CAN trade ministers meeting in Lima. While the GOP maintains that in this voting round, a 3-1 or 2-1 (with Ecuador abstaining) vote with only Bolivia opposing would be enough to allow the IPR changes, the MINCETUR officials said Bolivia interprets the rules differently. The MINCETUR officials expect Bolivia to vote "no," despite all of the high-level attempts to resolve this impasse.

18. (C/NF) Peru has already passed most of the IPR laws necessary to comply with the PTPA. If the CAN does not allow Peru the requested flexibility, Peru will be in violation of CAN norms and potentially subject to trade sanctions. The MINCETUR officials said that Peru has made clear that it would choose the PTPA over the CAN if it comes to that. Short of a full withdrawal, Peru's contingency plan is to change its status in the CAN from "full member" to "associate member" (like Chile). This would allow Peru to remain engaged in CAN discussions and attend CAN meetings, while at the same time allowing Peru's trade agenda to move forward. A full withdrawal from the CAN is not in Peru's interests, as it wishes to remain engaged with its neighbors and also hosts the CAN secretariat.

MCKINLEY